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RUEHCV/AMEMBASSY CARACAS PRIORITY 0302  
RHEHNSC/NSC WASHDC PRIORITY  
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY  
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DEPT FOR EUR/RUS, EEB/ESC/IEC GALLOGLY AND WRIGHT, S/EEE  
MORNINGSTAR  
DOE FOR HEGBURG, EKIMOFF  
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SUBJECT: CONOCOPHILLIPS COMMENTS ON RUSSIA-VENEZUELA OIL  
JOINT-VENTURE

Classified By: Acting Econ MC John C. Stepanchuk for Reasons 1.4 (b/d)

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"ECONOMICS NOT THERE"  
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¶1. (C) A senior ConocoPhillips executive (protect) told us on July 20 that the JV set up between a consortium of Russian companies (state-owned Gazprom and Rosneft, Lukoil, TNK-BP, and Surgutneftegaz) and Venezuela's national oil company, PDVSA, is unlikely to yield the results Russian and Venezuelan leaders have suggested. (Note: ConocoPhillips owns 20% of Lukoil, with which it enjoys a strategic partnership. End note.) Russian DPM Igor Sechin, who is in charge of the energy sector, and Venezuelan Vice President Ramon Carrizalez touted the JV at an August 17 meeting in St. Petersburg. Sechin and Carrizalez claimed that PDVSA and the Russian consortium, known as the NPC, would invest \$30 billion in projects in Venezuela over the next 40 years.

¶2. (C) Our contact, however, is "highly skeptical" that the JV will be able to produce its goal of almost 1 million barrels per day by 2015. He described the NPC as "a poorly staffed consortium with no experience -- kids, really, with little experience." That this entity and PDVSA would deliver 1 million bpd from the Orinoco in five years, he said, is "preposterous." That said, the NPC has "a lot of horsepower" behind it as it is chaired by Sechin and the CEOs of the five companies serve as the board. According to our contact, Venezuela is requiring the Russian partners to secure refining capacity in the U.S. and the NPC has thus sent a letter to five U.S. refiners, including ConocoPhillips and ExxonMobil, seeking partnerships to refine the expected crude.

¶3. (C) The ConocoPhillips executive said Lukoil and Gazprom counterparts have told him they are disinterested in the project. He believes that Sechin's strong backing of the project simply makes it a political necessity for the companies to participate. He added that because "the economics are not there," he expects to see "a lot of foot-dragging." Another ConocoPhillips executive expressed similar sentiments, saying Lukoil is "unenthused about the project" and "dismissive" of the effort, but will "go along for the ride." A TNK-BP executive also indicated to us that his company is "not enthusiastic" but is "willing to continue to study" the opportunity.

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COMMENT

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¶4. (C) The GOR's MO on foreign trips is to sign "agreements," "deals," and "protocols." Most are simply pieces of paper to give the principals of any given meeting something to show for the visit. Sometimes the GOR compels its companies to actually engage and invest in non-commercial efforts to demonstrate tangible results, as it appears to have in Venezuela. Fortunately, these efforts are usually doomed to fail under their own weight. Strapped with a record budget deficit, the GOR is unlikely to be able to sustain forced multi-billion dollar subsidies of an uneconomical venture. End comment.

RUBIN